

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 EA-06 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 /055 W

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R 100940Z FEB 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7915

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: EFIN, JA

SUBJ: INTERNATIONAL BANK LENDING PRACTICES - JAPAN

PASS TREASURY FOR WIDMAN/OASIA

REF: STATE 22709; STATE 27493

1. SUMMARY. FOLLOWING IS RESPONSE TO MAJOR QUESTIONS REQUESTED BY TREASURY IN REFTELS. INTERNATIONAL LENDING BY JAPANESE BANKS IS CONDUCTED UNDER CLOSE SUPERVISION OF MINISTRY OF FINANCE AND BANK OF JAPAN. PRINCIPAL FOCUS OF THIS REGULATION IS UPON MEDIUM AND LONG-TERM CREDIT UNDER WHICH BANKS LEND ONLY TO FOREIGN PUBLIC SECTORS OR TO SUBSIDIARIES OF MAJOR MULTI-NATIONAL FIRMS. BANKS DISPLAY CONSIDERABLE CAUTION WITH REGARD TO MATURITY OF LOAN STRUCTURE BUT ENCOUNTERED SOME DIFFICULTY ON COUNTRY-EXPOSURE IN LENDING IN PAST YEAR. ADDITIONAL DETAILS TO FOLLOW SEPTTEL. END SUMMARY.

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2. GENERAL REGULATORY STRUCTURE-INTERNATIONAL.  
INTERNATIONAL LENDING, LIKE DOMESTIC BANK CREDIT, IS

CLOSELY REGULATED BY THE MINISTRY OF FINANCE AND BANK OF JAPAN. BOTH TRADE CREDIT AS WELL AS MEDIUM AND LONG-TERM CREDIT ARE REGULATED WITH CHIEF ATTENTION TO LATTER. THERE ARE NO REGIONAL LIMITS ON THE EXTENSION OF TRADE CREDIT BUT MOF DOES MONITOR TRADE CREDIT TO PREVENT BANKS FROM EXTENDING EXCESSIVE CREDIT TO A PARTICULAR BORROWING FIRM. IN ADDITION, OCCASIONAL REGULATIONS ON THE OVERALL EXTENSION OF TRADE CREDIT ARE APPLIED FOR IMPORTS. FOR EXAMPLE, LOANS TO NON-RESIDENTS HAVE BEEN RESTRICTED SINCE JULY 1974 AND THIS RESTRICTION INCLUDES LOANS FOR IMPORTS TO JAPAN. IN GENERAL, THE DISTRIBUTION BY COUNTRY OF TRADE CREDITS CLOSELY APPROXIMATES THE DISTRIBUTION OF EXPORT FLOWS; HOWEVER, THE SHARES OF TRADE CREDIT TO LDC'S AND CHINA ARE SOMEWHAT LARGER THAN THOSE REGIONS' SHARES OF EXPORTS. LONG AND MEDIUM-TERM CREDIT EXTENSIONS BY COMMERCIAL BANKS ARE INDIVIDUALLY LICENSED BY MOF. THE MINISTRY SETS LIMITS BY REGION ON A BASICALLY AD HOC BASIS WITH NO REGULAR TIME FRAME FOR REVIEWING SUCH LIMITS. THE LIMITS ARE REVISED PRIMARILY ON WHAT AN MOF OFFICIAL CALLED A "COMMERCIAL RISK" BASIS. THE FOLLOWING TABLE SHOWS THE INCREASES IN TOTAL MEDIUM AND LONG-TERM LOAN COMMITMENTS BY JAPANESE BANKS WHICH THE MOF HAS APPROVED IN THE PAST THREE YEARS.

NET INCREASE IN LOAN COMMITMENTS (MEDIUM AND LONG-TERM)  
TO FOREIGNERS BY JAPANESE BANKS  
(MILLIONS OF U.S. DOLLARS)

|                      | 1972 | 1973  | 1974  |
|----------------------|------|-------|-------|
| N. AMERICA & W. EUR. | 429  | 2,710 | 352   |
| EAST. EUROPE         | 13   | 472   | 77    |
| MIDDLE & SO. AMERICA | 305  | 1,853 | 347   |
| EAST. & SO. ASIA     | 28   | 247   | 320   |
| OCEANIA              | 6    | 10    | 3     |
| NEAR & MIDDLE EAST   | 36   | 322   | 23    |
| AFRICA               | 23   | 352   | 307   |
| TOTAL                | 839  | 6,266 | 1,429 |
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AT ONE TIME MOF MONITORED NOT ONLY LOANS TO FOREIGNERS BY JAPANESE BANKS BUT ALSO GUARANTEES PROVIDED BY THE BANKS TO FOREIGN SUPPLIERS OF CREDIT. THERE ARE NO SPECIFIC REGULATIONS WITH RESPECT TO MATCHING THE STRUCTURE OF INTERNATIONAL DEPOSIT AND LOAN MATURITIES, BUT FORMIDABLE ADMINISTRATIVE GUIDELINES EXIST. BOJ STRESSES "SOUND RULES OF BANKING," I.E. MATCHING THE MATURITIES OF DEPOSITS AND LOANS, ALTHOUGH THESE ARE NOT ALWAYS OBSERVED. THERE ARE CLOSE REGULATIONS ON THE

SOURCING OF FUNDS AVAILABLE FOR LENDING. THESE REGULATIONS ARE DESIGNED TO CONSERVE FOREIGN EXCHANGE AND TO ISOLATE DOMESTIC MONETARY POLICY FROM INTERNATIONAL FINANCIAL PARKETS.

3. GENERAL REGULATORY STRUCTURE-DOMESTIC. DOMESTIC LOAN EXTENSION IS CAREFULLY REGULATED ON A QUARTERLY BASIS, PARTICULARLY DURING TIGHT MONEY PERIODS. "WINDOW GUIDANCE" IS USED BY THE BANK OF JAPAN TO DIRECTLY REGULATE LOAN EXTENSIONS AND GUARANTEES OF THE MAJOR COMMERCIAL BANKS (SEE TOKYO A-49, PARA B(2), JANUARY 4, 1975).

4. OUTLINE OF COMMERCIAL BANK INTERNATIONAL LENDING. FOREIGN LOANS ACCOUNT FOR ABOUT 10 PERCENT OF THE TOTAL LOAN PORTFOLIO OF MAJOR JAPANESE BANKS. LOANS OTHER THAN TRADE CREDIT ARE NORMALLY EXTENDED ONLY TO THE PUBLIC SECTOR OF FOREIGN COUNTRIES OR TO SUBSIDIARIES

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C O R R E C T E D C O P Y (FOR ACTION CHANGE AND SECTION INFORMATION)

OF WELL-KNOWN INTERNATIONAL CORPORATIONS. WHEN LOANS ARE EXTENDED TO THE LATTER, THE JAPANESE BANK OFTEN REQUESTS THE GUARANTEE OF A MAJOR NEW YORK OR EUROPEAN BANK. NO GUARANTEE IS SOUGHT FOR A LOAN TO THE PUBLIC SECTOR. ALL INTERNATIONAL LOANS OTHER THAN TRADE CREDIT ARE NORMALLY SYNDICATED IN ORDER TO MINIMIZE THE SPECIFIC EXPOSURE OF THE BANK.

5. INTERNATIONAL DEVELOPMENTS IN 1973 AND 1974. IN 1973 THE TOTAL VOLUME OF INTERNATIONAL LENDING BY JAPANESE BANKS INCREASED SHARPLY, WITH THE INCREASE DOMINATED BY SYNDICATED LOANS OF A MEDIUM AND LONG-TERM CHARACTER. THIS DEVELOPMENT CAME IN RESPONSE TO A GOVERNMENT POLICY OF ENCOURAGING CAPITAL OUTFLOWS DURING A PERIOD OF MASSIVE B/P SURPLUSES. LOAN EXTENSION DURING 1974 HAVE BEEN MODERATE AND HAVE BEEN INTENDED PRIMARILY TO FINANCE JAPANESE AFFILIATES ABROAD. SINCE JULY 1974 NO INCREASES IN JAPANESE MEDIUM AND LONG-TERM LOAN COMMITMENTS ABROAD LIMITED OFFICIAL USE

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HAVE BEEN PERMITTED. IN CONVERSATIONS WITH GOVERNMENT OFFICIALS AND PRIVATE BANKERS, THE PHRASE "SINCE HERSTATT" FREQUENTLY OCCURRED. BOTH THE GOVERNMENT AND COMMERCIAL BANKS ARE NOW TAKING A CAUTIOUS ATTITUDE AND NO SIGNIFICANT EXPANSION IN INTERNATIONAL LENDING IS EXPECTED IN 1975. DURING THE PAST TWO YEARS COMMITMENTS TO CERTAIN COUNTRIES AND REGIONS WERE EXTENSIVE. IN 1973 A RAPID INCREASE IN SYNDICATED LENDING TO LATIN AMERICA, ESPECIALLY BRAZIL AND MEXICO, OCCURRED. DURING THE FIRST HALF OF 1974, EXTENSIVE COMMITMENTS FOR TRADE FINANCING AND SYNDICATED LOANS WERE MADE TO ITALY. ONE MOF SOURCE ESTIMATED OUTSTANDING COMMITMENTS TO ITALY IN JULY 1974 AT \$3 BIL. SINCE JULY, COMMERCIAL BANKS AT THE URGING OF MOF HAVE BEEN ATTEMPTING TO REDUCE THEIR COMMITMENTS VIS-A-VIS ITALY.

6. ASSESSING CREDITWORTHINESS. COMMERICAL BANKS ASSESS THE CREDITWORTHINESS OF BORROWERS IN TWO WAYS. THE FIRST IS TO GRADE POTENTIAL BORROWERS IN TERMS OF

THE MAXIMUM MATURITY OF ANY LOAN WHICH WOULD BE EXTENDED TO THEM. THE SECOND WAY WOULD BE ASSESSING THE MAXIMUM AMOUNT OF OUTSTANDING CREDIT WHICH WOULD BE GRANTED TO ANY COUNTRY. FOR ASSESSING MATURITIES A BANK WOULD LOOK AT B/P TRENDS, FOREX RESERVES, EXPORT PROSPECTS, DOMESTIC INFLATION, RECENT PRODUCTIVITY TRENDS, ETC. ONE MAJOR BANK RATES THE MAXIMUM MATURITY FOR LOANS TO PROSPECTIVE BORROWERS AS FOLLOWS: INDUSTRIAL COUNTRIES (10-12 YEARS); STRONG DEVELOPING COUNTRIES, SUCH AS BRAZIL, MEXICO, OR IRAN WHEN IT WAS BORROWING

(5 YEARS); VIRTUALLY ALL OTHER LDC'S AND THE WEAKER EUROPEAN COUNTRIES (2 YEARS MAXIMUM). FOR ASSESSING CREDIT LINES BY COUNTRIES, MAJOR JAPANESE BANKS APPEAR TO RELY ON A RELATIVELY RIGID APPROACH. A BOJ SOURCE DESCRIBED HOW BANKS COMPUTE A MAXIMUM CREDIT LINE FOR A COUNTRY. THE FOLLOWING FACTORS ARE TYPICALLY USED TO ESTIMATE THE CREDIT LINE FOR EACH COUNTRY: RESERVES, TRADE SURPLUS, A POLITICAL STABILITY RATING, A RATING FOR NATURAL RESOURCES NOT YET USED, POPULATION, REAL GROWTH DURING THE PRIOR DECADE AND "POLITICAL ATTITUDE TOWARD JAPAN." THE LIMITED OFFICIAL USE

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FACTORS ARE NOT USED FLEXIBLY BUT TO COMPUTE ON A WEIGHTED AVERAGE BASIS A PRECISE CREDIT LINE. THE BOJ SOURCE INDICATED THAT MOST CITY BANKS USED THIS APPROACH; HE ADDED, HOWEVER, THAT THE FORMULA MAY BE OVERRULLED IF SOMEONE IN TOP MANAGEMENT HAS PARTICULARLY CLOSE BUSINESS RELATIONS WITH A SPECIFIC FOREIGN BORROWER. THE LAST ITEM ON THE LIST OF FACTORS "POLITICAL ATTITUDES" COULD, OF COURSE, BE A MEANS OF ADJUSTING THE CREDIT LINE IN A MANNER CONSISTENT WITH MANAGEMENT DESIRES.

#### 7. OTHER CHARACTERISTICS OF JAPANESE BANK POLICIES.

CERTAIN FACTORS WHICH MIGHT BE CONSIDERED IMPORTANT IN OTHER COUNTRIES DO NOT PLAY A MAJOR ROLE IN JAPANESE BANK POLICY. CAPITAL ASSET RATIOS, FOR EXAMPLE, ARE NOT USED BY JAPANESE BANKS IN GUIDING EITHER THEIR DOMESTIC OR THEIR FOREIGN LENDING. (THE RECENT BOJ GUIDELINES LIMITING LENDING TO ANY SPECIFIC CORPORATION TO A VALUE TWICE THE BANK'S CAPITAL IS NOT DESIGNED TO PROTECT THE BANK FROM A POTENTIALLY RISKY BORROWER BUT TO DISTRIBUTE THE BANK'S LOAN PORTFOLIO MORE EVENLY AMONG ALL POTENTIAL BORROWERS.) IN ADDITION, JAPANESE BANKS HAVE LITTLE CONCERN ABOUT POSSIBLE CONCENTRATION OF INTERNATIONAL DEPOSITS BY REGION OR BY LENDER. THIS IS BECAUSE THEIR PRIMARY SOURCE OF FOREIGN DEPOSITS IS INTERBANK BORROWING IN THE EURODOLLAR MARKET.

8. STATISTICS. TOKYO 14550, 11/8/74, PROVIDED DETAILS AND COMMENTS ON JAPAN'S CAPITAL EXPORTS SUPPLEMENTING REGULAR MONTHLY B/P AIRGRAMS. MOST COMPREHENSIVE DATA ON OUTSTANDING BANKING SECTOR CLAIMS ON FOREIGNERS IS BIS (ESTEVA) TABLES WHICH SHOW NOT ONLY SHORT-TERM BUT ALSO LONG-TERM CLAIMS. EXCEPT FOR GOV-TO-GOV CREDITS, JAPAN EXIM BANK CREDITS ARE EXCLUDED FROM THOSE FIGURES BECAUSE CREDITS ARE TO JAPANESE COMPANIES WHICH THEN

ON-LEND THE FUNDS. ALSO EXCLUDED ARE LOANS MADE  
THROUGH OVERSEAS ECONOMIC COOPERATION FUND REPORTED  
IN TOKYO A-50, 1/31/75. FINATT BELIEVES IMF HAS ISSUED  
STAFF DOCUMENT ON FOREIGN LENDING PRACTICES OF JAPANESE  
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BANKS WHICH MAY BE HELPFUL TO TREASURY (AND ALSO TO  
EMBASSY) IN GAINING FULLER UNDERSTANDING OF ROLE OF  
JAPANESE BANKS.  
HODGSON

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
**Draft Date:** 10 FEB 1975  
**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
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**Reference:** 75 STATE 22709, 75 STATE 27493  
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**Review Authority:** MorefiRH  
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**Review Transfer Date:**  
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**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** INTERNATIONAL BANK LENDING PRACTICES - JAPAN PASS TREASURY FOR WIDMAN/OASIA  
**TAGS:** EFIN, JA  
**To:** STATE EB  
**Type:** TE  
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